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SUBJECT: SCENESETTER FOR CROATIA'S NOVEMBER 25 PARLIAMENTARY
ELECTIONS

¶1. This is the first in a series of reports on Croatia's upcoming elections, providing a general overview of the issues central to the election. Further installments will discuss specific parties and issues in greater detail.

¶2. SUMMARY: As Croatia gears up for parliamentary elections tentatively scheduled for November 25, polls are predicting a very close race between the ruling center-right Croatian Democratic Union (HDZ) and its biggest opponent, the center-left Social-Democratic Party (SDP). With few differences between the parties' campaign platforms, swing voters are expected to be swayed primarily by their perceptions of candidates' credibility and honesty. The results will also depend on the degree to which the Croatian electorate expresses its desire for a change of government. Neither major party is likely to win an absolute majority on election day, and will therefore need coalitions with smaller parties in order to form the next government. One thing is clear: neither an SDP nor an HDZ victory will represent a significant departure from Croatia's bilateral relationships and multilateral commitments. END SUMMARY.

TIMELINE: ELECTION DAY WILL BE NOVEMBER 25

¶3. On September 17, 2007 the Speaker of the Parliament announced that the Croatian parliamentary elections would "most certainly" take place on November 25, 2007. Croatia's current Parliament, formed for a four-year term after the November 2003 elections, has 152 members representing 12 electoral districts. At the last election, Croatia had 4.4 million voters registered, including some 400,000 registered Croatian citizens in the diaspora, mostly in Bosnia and Herzegovina. (NOTE: Only 2.2 million votes were cast in the last election. NGOs and other observers have pointed out that, in a country with an estimated population of 4.4 million, having 4 million domestically registered is surely an inflated figure, although no serious allegations of ballot-box stuffing have been made. Efforts to clean up the register, deleting deceased individuals and multiple addresses, have been underway, but no official number of registered voters for the upcoming election have yet been issued. END NOTE.)

THE PLAYERS: IT'S HDZ VS. SDP

¶4. GOVERNING MAJORITY: In the current Parliament, the HDZ holds 62 seats and heads the ruling majority in coalition with a host of smaller parties: Croatian Social Liberal Party (HSLs - 3 seats), Croatian Party of Pensioners (HSU - 3 seats), eight representatives of national minorities, and two independents. The right-wing Croatian Party of Right (HSP - 7 seats) generally votes with the governing coalition, although it has not formally joined the coalition.

¶5. THE OPPOSITION: The opposition consists of the SDP which currently holds 33 seats, in coalition with the Croatian People's

Party - Liberal Democrats (HNS - 11 seats), Croatian Peasant Party (HSS - 9 seats) and the Istrian Democratic Congress (IDS - 4 seats). The far-right Croatian Democratic Alliance of Slavonija and Baranja (HDSSB - 3 seats), and the lone Democratic Center (DC) representative also consistently vote against the government.

THE POLLS: INCREASINGLY, A DEAD HEAT

¶6. According to the International Republican Institute opinion poll conducted in September, if the elections were held today, 30.2% of voters would vote for SDP and 26.6% for HDZ. No other party earned more than 8%. Translated into parliamentary seats, SDP would win 58 and HDZ 51, leaving both parties in need of coalition partners to assemble a majority (currently 77 seats). The SDP's lead has been slipping gradually throughout the year, since a peak just after the illness and death of former SDP leader Ivica Racan galvanized public support for the SDP.

CAMPAIGN PLATFORMS: LITTLE TO CHOOSE BETWEEN

¶7. With less than two months to go, the parties are busy preparing their electoral slates. Even with the campaign rhetoric heating up during and after the conventions, however, few dramatic differences exist between the major political parties' campaign platforms. Reduction of unemployment, accelerated economic growth, the fight against corruption, judicial, fiscal and health reforms, decreasing the budget deficit, cautious privatization, membership in EU and NATO, are all shared themes of both parties' platforms. Minor policy differences, such as whether to introduce a capital gains tax, or whether to call a public referendum as a prelude to joining NATO (both of which are favored by the SDP), do not seem to have caught the electorate's attention so far. The elections are therefore expected to center more on personalities, i.e. on which

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party is seen as more honest or less corrupt, and which is more credible that it will be able to deliver the promised policies. Public opinion on which party is more competent is split, depending on the issue. According to IRI's April 2007 poll, SDP was perceived as a better solver of Croatia's key problems - from economic development and unemployment to corruption, workers' rights and health and education. HDZ was perceived as more successful in bringing Croatia into NATO and EU, helping war veterans and defending the dignity of Croatia's Homeland War.

PERSONALITY FACTOR: STRONG LEADER VS. STRONG TEAM

¶8. One local observer has told the Embassy the campaign battle essentially consists of one side (HDZ) "with a strong leader but a weak team", and another (SDP) "with a stronger team, but untested, even uncertain, leadership." Croatian Prime Minister Ivo Sanader, who is also president of the HDZ, remains a relatively respected figure for most Croatians, after four years in the office. The party he leads, however, has been tainted by corruption allegations and scandals. Most of his ministers are inconspicuous figures whose accomplishments are few and little known to the average Croatian voter, while others are polarizing figures who appeal to parts of the HDZ's political base, but also suffer high negatives.

¶9. The SDP will also be banking heavily on its belief that Croatian voters are simply ready for a change. The SDP leader, 41-year old Zoran Milanovic, clearly represents the face of a new generation of Croatian politicians. The election in June of this young urban professional as the president of SDP, combined with sympathetic nostalgia at the passing of former PM Racan, contributed to an upsurge in SDP popularity. Milanovic has sought to leverage his popularity, and to signal the SDP's breadth of competence, by personally rolling out a slate of SDP candidates for ministerial positions who are in general well-respected individuals. This effort to impress voters with the strength of the SDP's team, however, has been complicated by the SDP's decision to nominate economist Ljubo Jurcic, rather than party president Milanovic, as the party's choice for Prime Minister. Both Milanovic

and the party insist there is no discussion, but several non-partisan Embassy contacts have suggested that after the elections the SDP may look to shift Jurcic aside in favor of Milanovic.

WILD CARDS: THE DIASPORA AND THE SMALLER PARTIES

¶10. With the election likely to be a dead heat between the HDZ and SDP, other factors will gain in importance: the diaspora seats, how many seats smaller parties can hold on to, and with whom they decide to go into coalition.

¶11. DIASPORA: Under Croatia's electoral rules, since 1995, the seats of the eleventh electoral district come from votes of some 400,000 Croatians who do not reside in Croatia, but rather largely live in neighboring Bosnia and Herzegovina. Diaspora voters have generally leaned towards the HDZ, giving them all four diaspora deputies in the current Parliament. The number of seats from the diaspora is determined by a so-called "unfixed quota", based on the average number of votes cast for a seat in Croatia. In 2003, that number was 17,209. The greater diaspora turn-out at the election, the greater the number of diaspora seats in the Parliament. And vice-versa: the greater in-country turnout, the fewer diaspora representatives get elected. It is therefore theoretically possible that HDZ gets fewer votes than SDP in Croatia proper, but still wins most of the seats once the diaspora votes are added.

¶12. COALITION POLITICS: As noted, either HDZ or SDP will likely need smaller parties to form a coalition government. The SDP can almost certainly count on the support of the HNS and IDS parties. The right-wing HSP and HDSSB are unacceptable coalition partners for the SDP, and the HDZ would accept a coalition with them only as a last resort. Both the HNS and HSP, however, have experienced internal political struggles recently, leaving in doubt how many seats they may hold on to. The pensioners of the HSU and the representatives of ethnic minorities, which are "interest groups" more than they are political parties, are expected to support whichever major party wins the most votes. This could leave a centrist alliance of the HSLS and the HSS, where the former supported the HDZ government and the latter is currently in opposition, to tip the balance. While HSLS and HSS politicians would relish the role, both parties have been fading political stars over the past eight years, and even if they end up as kingmakers, are not likely to be heavily influential ones.

BOTTOM LINE: EITHER PARTY A GOOD PARTNER FOR THE U.S.

¶13. Both major parties are genuinely pro-Western and understand the need for continued reforms, so any government formed after the

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elections should be one that can work well with the U.S. The declared preference of the SDP to hold a referendum on NATO membership poses a political risk, if it is carried out, but it does not raise any question about the SDP's pro-NATO orientation. On the other hand, the outside chance of an HDZ-led government that depended on the right-wing HSP, while not an appealing option, would be more likely to mean the dilution of the HSP's nationalist agenda, than to raise worries about Croatia's human rights performance. In the end, the real impact of these elections on US interests, as for Croatia itself, will be whether it delivers a government that can effectively implement its program.

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